

# **Accounting for the Cost of Health Care in the U.S.**

**McKinsey Global Institute      January 2007**

## **A Partial Overview**

The study by the McKinsey Global Institute finds that *U.S. health care spending is nearly double the average of other industrialized nations, with the same or worse outcomes.*

### **Among McKinsey Report Conclusions:**

- The U.S. spends \$477 billion/year more on health care than the spending pattern of 13 other advanced countries
- Annual U.S. health care spending amounts to 3.6% of U.S. entire economic output, or \$1,645 per capita annually.

### **Areas of overpayment for U.S. health care:**

- Physician Costs - \$58 billion/year more than other countries due to higher volumes of procedures & patients seen - calculated after malpractice insurance & cost of administrative paperwork
- Hospital Services - \$224 billion annually - \$1,666 higher cost/day (4X industrial country average - free care for uninsured is a relatively minor factor)
- Drugs - \$57 billion/year more than other developed countries - even though we take fewer pills. Drug companies charge an average 60-70% more for branded prescription drugs.
- Private Insurance - \$84 billion/year in excessive administrative costs; \$30 billion/year in after-tax profits; \$32 billion/year on marketing and premium adjustments for group, individual and regional coverage.

### **Conclusion of The McKinsey Study:**

“...any effort to reduce these excess costs faces determined opposition from well-financed lobbies, which is why many reformers prefer to focus on the goal of extending coverage to the 47 million Americans who don't have health insurance. But doing the one without the other, the McKinsey researchers warn, would be economic folly. Offering universal coverage without reining in costs would add another \$77 billion each year in unnecessary and unproductive health spending.”

Full Study:

[http://www.mckinsey.com/mgi/reports/pdfs/login.aspx?ReturnUrl=%2fmgi%2freports%2fpdfs%2fhealthcare%2fMGI\\_US\\_HC\\_fullreport.pdf](http://www.mckinsey.com/mgi/reports/pdfs/login.aspx?ReturnUrl=%2fmgi%2freports%2fpdfs%2fhealthcare%2fMGI_US_HC_fullreport.pdf)